

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PRS-01 PA-01 SAJ-01 INT-05 IO-10

EA-06 /109 W

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R 080738Z JUL 75

FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC 1984

INFO AMEMBASSY ANKARA

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E.O. 11652: N/A

TAGS: ETRD, EAID, UR, TU

SUBJECT: SOVIET-TURKISH ECONOMIC COOPERATION: NEW AGREEMENT
TO BE SIGNED JULY 9

1. SUMMARY - TURKISH EMBASSY SOURCE CLAIMS NEW SOVIET-TURKISH ECONOMIC COOPERATION AGREEMENT SCHEDULED FOR CONCLUSION IN ANKARA JULY 9. AGREEMENT TO BE SIGNED FOR SOVIETS BY CHAIRMAN OF STATE COMMITTEE FOR FOREIGN ECONOMIC RELATIONS SEMEN A. SKACHKOV, WHO HEADS SOVIET GROUP WHICH DEPARTED MOSCOW JULY 4 WITH VISIT TO ISKENDERUN STEEL PLANT PLANNED ENROUTE. ACCORD REPORTEDLY INCLUDES EXPANSION ISKENDERUN PLANT FROM 2 MILLION TO 4 MILLION TONS PER YEAR CAPACITY, EXPANSION OF SOVIET-BUILT ALUMINUM PLANT, CONSTRUCTION FOUR THERMO-ELECTRIC POWER STATIONS WITH CAPACITY 400 MEGAWATTS. UMBRELLA CREDIT AGREEMENT PROVIDING APPROXIMATELY 600-700 MILLION DOLLARS FOR PROJECTS WITH TERMS 10-12 YEARS REPAYMENT AT AVERAGE 3 PERCENT INTEREST. SOVIETS DECLINED

COMMITMENT ON SECOND STEEL PLANT ON GROUND INABILITY PROVIDE NECESSARY EQUIPMENT PRIOR TO 1980. AGREEMENT ALSO PROVIDES
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FOR ESTABLISHMENT JOINT ECONOMIC COMMISSION. END SUMMARY

2. TURKISH EMBASSY SOURCE (AYDAN KARAHAN, FIRST SECRETARY) CONFIRMS INFORMATION GIVEN AMBASSADOR BY BRITISH CHARGE JULY 3 THAT NEW SOVIET-TURKISH ECONOMIC COOPERATION AGREEMENT WAS INITIALED LAST WEEK BY TURKISH AMBASSADOR TURKMEN AND DEPUTY CHAIRMAN STATE COMMITTEE FOREIGN ECONOMIC RELATIONS I. KULEV. AMBASSADOR TURKMEN ACCOMPANIED SOVIET GROUP, HEADED BY CHAIRMAN SKACHKOV, WHICH DEPARTED MOSCOW JULY 4 FOR DOCUMENT SIGNING IN ANKARA JULY 9. GROUP PLANS VISIT SOVIET-BUILT STEEL PLANT AT ISKENDERUN ENROUTE.

3. AGREEMENT PROVIDES FOR SOVIET ASSISTANCE TO EXPAND ISEKNDERUN PLANT FROM 2 MILLION TO 4 MILLION TONS PER YEAR CAPACITY. ACCORDING TO KARAHAN FIRST BLAST FURNACE HAS JUST BEEN STARTED AT PLANT AND CAPACITY OF 1 MILLION TONS PER YEAR WHICH WAS ENVISIONED UNDER ORIGINAL 1967 AGREEMENT WILL NOT BE REACHED UNTIL ABOUT 1978. PROVISIONS ALSO INCLUDE EXPANSION OF ALUMINUM PLANT AND CONSTRUCTION OF FOUR THERMO-ELECTRIC POWER STATIONS WITH CAPACITY OF 400 MEGAWATTS. SOVIETS WOULD NOT AGREE TO ASSIST WITH SECOND TURKISH STEEL MILL, SAYING THEY COULD NOT PROVIDE EQUIPMENT UNTIL AFTER 1980 AT EARLIEST. IN ADDITION TO BASIC AGREEMENT, WHICH PROVIDES FOR ESTABLISHMENT JOINT ECONOMIC COOPERATION COMMISSION, THERE WILL BE EXCHANGE OF LETTERS ON SOVIET ASSISTANCE ON CONSTRUCTION OF ELECTRICAL EQUIPMENT PLANT IN TURKEY.

4. ACCORDING TO KARAHAN TERMS OF CREDIT AGREED AT 10-12 YEARS REPAYMENT WITH AVERAGE OF 3 PERCENT INTEREST. AMOUNT OF CREDIT WILL BE DETERMINED AFTER COMPLETION FEASIBILITY STUDIES FOR EACH PROJECT, BUT TOTAL EXPECTED TO BE BETWEEN 600 AND 700 MILLION DOLLARS. DETAILS FOR EACH PROJECT WILL BE SUBJECT SEPARATE AGREEMENTS, INCLUDING INTEREST RATE ON CREDITS WHICH MAY VARY BETWEEN 2 AND 4 PERCENT WITH OVERALL AVERAGE THREE PERCENT. REPAYMENT TO BE IN KIND, SIMILAR TO REPAYMENT TERMS FOR 1967 CREDIT OF 200 MILLION DOLLARS, UNDER WHICH TURKS PROVIDE APPROXIMATELY 30 MILLION DOLLARS PER YEAR IN PRODUCTS IN ADDITION TO BALANCED TRADE OF ABOUT 90 MILLION DOLLARS. THESE WERE BASIC TERMS OF SOVIET-TURKISH COMMERCIAL AGREEMENT SIGNED IN MOSCOW LASTMONTH, ACCORDING TO KARAHAN. PROVISIONS OF 1967 AGREEMENT WERE ESPECIALLY ACCEPTABLE FOR LIMITED OFFICIAL USE

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TURKEY, SINCE OPPORTUNITY WAS PROVIDED TO EXPORT SURPLUS TOBACCO AND OTHER PRODUCTS. ONLY PROBLEM HAS BEEN GOLD-CLAUSE WHICH HAS RESULTED IN INCREASINGLY LARGE DOLLAR REPAYMENTS AS GOLD VALUE WENT UP, LEADING TO LOUD COMPLAINTS FROM TURKISH FIRMS.

5. COMMENT: NEW AGREEMENT HAS BEEN EXPECTED FOR SOME TIME AND, IN KARAHAN'S ESTIMATE, IS NORMAL DEVELOPMENT IN SOVIET-TURKISH ECONOMIC RELATIONS. KARAHAN BELIEVES THAT TURKISH

GOVERNMENT WILL TURN TO WESTERN SOURCE FOR SECOND STEEL PLANT
IN VIEW SOVIET REFUSAL MAKE COMMITMENT, WITH APPARENTLY ONE
JAPANAESE FIRM ESPECIALLY INTERESTED.
STOESSEL

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGREEMENTS, ECONOMIC COOPERATION
Control Number: n/a
Copy: SINGLE
Draft Date: 08 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975MOSCOW09462
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750235-0057
From: MOSCOW
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750777/aaaacqyq.tel
Line Count: 119
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 11 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <11 JUN 2003 by CunninFX>; APPROVED <12 JUN 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SOVIET-TURKISH ECONOMIC COOPERATION: NEW AGREEMENT TO BE SIGNED JULY 9
TAGS: ETRD, EAID, UR, TU
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006